

HOUSE BILL REPORT

ESSB 5275

As Reported by House Committee On:
Financial Institutions & Insurance

Title: An act relating to prohibiting the use of consumer credit histories for personal insurance renewal decisions.

Brief Description: Limiting the use of consumer credit histories for personal insurance renewal decisions.

Sponsors: Senators Fairley, Benton, Regala, Kline, Franklin and Mulliken.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 3/17/05, 3/24/05 [DP].

Brief Summary of Engrossed Substitute Bill

- Adds definitions of "prior credit history" and "updated credit history."
- Prohibits an insurer from using a consumer's updated credit history at the time of renewal to determine premium if the updated credit history is less favorable than the prior credit history.
- Allows an insurer to use the prior credit history or other factors to determine premium increases at renewal.
- Delays the effective date until December 31, 2005.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 6 members: Representatives Kirby, Chair; Ericks, Vice Chair; O'Brien, Santos, Simpson and Williams.

Minority Report: Do not pass. Signed by 4 members: Representatives Roach, Ranking Minority Member; Newhouse, Serben and Strow.

Staff: Jon Hedegard (786-7127).

Background:

An insurance score is a number generated via a computer program that analyzes the data in an individual's credit report. The computer program uses an algorithm to reduce credit report

data to a single numerical score. Generally, insurance scores are calculated either by insurers using their own computer model or by third-party vendors who contract with insurers to do credit score calculations. In 2002, Washington passed a law limiting the ways in which a credit history or an insurance score can be used by insurers in underwriting and rating personal insurance.

Insurance scoring models.

Insurers may use credit history to determine premiums, rates, or eligibility for coverage unless the insurers has filed the insurance scoring models with the Insurance Commissioner.

Credit information that may not be used by insurers.

There are certain types of credit history information that an insurer can not consider in rate setting or use to deny coverage, including:

- an absence of credit history;
- the number of credit inquiries;
- credit history related to medical care;
- entries related to the initial purchase or finance of a house or car;
- use of a particular type of credit, debit, or charge card; or
- the dollar amount of a consumer's available credit.

Applicants.

An insurer is permitted to consider credit history in the evaluation of a new customer applying for insurance. Credit history must be considered with other substantive underwriting factors. An offer of placement with an affiliate insurer does not constitute a denial of coverage.

Cancellation and non renewal.

An insurer's decision to cancel or not renew an existing policy of personal insurance may not be based on an insured's credit history. However, an insurer may use credit history as the basis for placing an insured with another company affiliated with the insurer.

Notice to the consumer.

An insurer that takes any adverse action against a consumer based on credit history must provide the consumer with written notice. The notice must identify those aspects of the consumer's credit history that played a significant role in the decision leading to the adverse action. The insurer must also inform the consumer that the consumer is entitled to a free copy of his or her credit report. An insured is provided with certain remedies if his or her insurance coverage is adversely affected by an inaccurate credit history.

Summary of Bill:

The bill adds definitions of "prior credit history" and "updated credit history."

"Prior credit history" is defined as the credit history obtained by the insurer and used at the issuance or prior renewal of the policy.

"Updated credit history" is defined as the most recent version of any credit history obtained by an insurer since issuance or prior renewal of the policy.

Insurers are prohibited from using a consumer's updated credit history at the time of renewal to determine premium if the updated credit history is less favorable than the prior credit history. An insurer is not prohibited from using the prior credit history or other factors to determine premium increases at renewal.

The effective date is delayed until December 31, 2005.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on December 31, 2005.

Testimony For: None.

Testimony Against: The best option is no bill at all. If legislation is necessary, the Senate language is preferable to Substitute House Bill 1928. Insurance agents supported the 2002 and 2004 bills and the 2003 and 2005 rules, they do not support this bill. The laws and rules ought to be given a chance to settle. The new rules adopted by the Insurance Commissioner require more detailed explanations to consumers. The rules should raise consumer awareness. Insurers and agents have spent considerable sums to achieve compliance with the existing regulatory system, do not add to the cost and compliance burden.

Persons Testifying: Kenton Brine and Marcus Linden, Progressive Corporation; and Bill Stauffacher, Independent Insurance Agents.

Persons Signed In To Testify But Not Testifying: None.